

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
August 23-25, 2022
Zoom for Government

<i>Tuesday, August 23, 2022</i>	2
Attendance	2
Administrative Matters	2
• Approval of Minutes.....	2
• Updates and Clippings.....	2
• AAPC Technical Release Review	2
Agenda Topics	3
• Management's Discussion and Analysis	3
• Leases Omnibus	7
• Technical Agenda Review	8
• Annual Report Review	10
• Management's Discussion and Analysis	11
• Steering Committee Meeting.....	11
Adjournment	11
<i>Wednesday, August 24, 2022</i>	11
Agenda Topics	12
• Management's Discussion and Analysis	12
• Software Technology: Cloud Service Arrangements	16
• Intragovernmental Leases-Related Reimbursable Work Agreements	24
• Review of SFFAS 38 Requirements	26
• Appointments Panel Meeting	28
Adjournment	29
<i>Thursday, August 25, 2022</i>	29
Agenda Topics	29
• Management's Discussion and Analysis	29
Adjournment	31

For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by topic; references to these topics in the minutes are hyperlinked.

Tuesday, August 23, 2022

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Messrs. Scott (chair) and Bell, Ms. Bronner, Mr. Dacey, Mses. Harper and Johnson, and Messrs. McNamee and Vicks. Mr. Patton was present starting at 10:30 a.m. on August 23. The executive director, Ms. Valentine, and general counsel, Mr. Kirwan, were present throughout the meeting. Ms. Valentine conducted a verbal roll call of the members.

Administrative Matters

- **Approval of Minutes**

The Board approved the June meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Scott asked the members if there were any comments on the clippings. No members had comments.

Ms. Reese, Governmental Accounting Standards Board (GASB) senior project manager, provided a brief overview of GASB’s recent activities.

Ms. Reese noted that GASB had issued several documents in June: three final Statements and one exposure draft (ED). Those documents include Concepts Statement No. 7 on disclosures, Statement No. 101 on compensated absences, Statement No. 100 on accounting changes and error correction, and an ED on certain risk disclosures.

GASB is working on an ED as part of the financial reporting model reexamination project. GASB members are also beginning to deliberate the going concern uncertainties and severe financial stress project and a project on the classification of nonfinancial assets. Lastly, GASB has added to its agenda work on its 2022 updates to implementation guidance.

Mr. Scott thanked Ms. Reese for keeping the Board informed of GASB’s activities.

Mr. Scott noted the extensive outreach efforts in the past two months from both Board and staff members.

- **AAPC Technical Release Review**

Mr. Scott explained that staff had provided members a copy of proposed Technical Release (TR) 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments* in their briefing materials. The Accounting and Auditing Policy Committee

(AAPC) had approved TR 21 and submitted it for the Board's 45-day review. He asked if any members wanted to discuss the document.

Mr. Dacey asked if using the language "relevant generally accepted accounting principles (GAAP)" as used in proposed TR 21 would be establishing precedent. Mr. Dacey explained that his concern is that the footnote to "relevant GAAP" is not limited to citing the specific GAAP areas that are appropriate. Mr. Dacey noted that it appears that users should comply with all GAAP, and the TR does not specify each pronouncement explicitly. Mr. Dacey wanted to know if this was a precedential change that the Board should expect in future TRs or other pronouncements.

Ms. Batchelor, assistant director, explained that this change is not precedential, and the AAPC had deliberated it at length because Mr. O'Neil, an AAPC member, had raised it as a concern. Ms. Batchelor explained the change in the TR was made to replace a specific reference (previously the TR only referenced Statement of Federal Financial Accounting Standards [SFFAS] 6, *Accounting for Property, Plant, and Equipment*) that was outdated and no longer in accordance with GAAP. Staff believed the current phrasing was more comprehensive and would allow for future pronouncements. Ms. Batchelor explained the footnote to "relevant GAAP" provides the specific pronouncement references while also accommodating potential future pronouncements. This wording was used to keep the TR from becoming outdated if FASAB issues a new pronouncement that is specific to the topic. She explained the wording appeared to be the right balance of providing the most detail in the implementation guidance while being cognizant that the TR should conform to interacting changes in GAAP that may occur in the future. After deliberating, the AAPC agreed that it was comfortable with the wording, including Mr. O'Neill who indicated that he did not believe it was misleading.

The Board members discussed the wording, and Mr. Scott and Ms. Valentine reminded them of the due process for TRs approved by the AAPC. The document is currently with the Board for a 45-day review period to gain negative assurance (no objection) from a majority of members before FASAB issues it. If a majority of the Board or a federal member do not object to the TR by September 3, 2022, FASAB will release it as final on September 6, 2022.

Agenda Topics

- **Management's Discussion and Analysis**

Mr. Scott introduced [topic A](#), management's discussion and analysis (MD&A), noting that the goal for the MD&A sessions was to work towards a pre-ballot draft. The project goal was to expose the draft in early 2023 to provide the community with an opportunity to provide feedback. He turned the meeting over to Ms. Gilliam, assistant director, who thanked members for sending in their preliminary comments. The goal for this session was to review the sections titled *Presenting Information in MD&A* and *Information to Discuss and Analyze in MD&A*.

Question 1 – What technical edits do you propose for *Presenting Information in MD&A*?

Ms. Gilliam explained that *Presenting Information in MD&A* should describe **how** the Board wants information presented. She reviewed the lead-in sentence for these standards and reminded members that the purpose of the MD&A is to present a “streamlined narrative” about the reporting entity and its financial position and condition. In response to preliminary comments, staff had added “operating performance” and “systems and controls” to the description of “financial position and condition.” Members agreed to this update.

Members agreed that the purpose of the MD&A should be moved from the lead-in sentence for *Presenting Information in MD&A* to its own paragraph and be based on the vision statement. As a result, members agreed to update the lead-in sentence to read, “The MD&A should present...”

Ms. Gilliam reminded members that they had agreed that four characteristics describe a streamlined narrative—balanced, integrated, concise, and understandable. Members reviewed each characteristic to make sure it captured how the Board wanted information presented as a streamlined narrative in MD&A.

One member wanted to better understand the difference between “concise” and “streamlined.” Ms. Gilliam explained that concise should help to explain what the Board means by “streamlined.”

Balanced

Members agreed that for the MD&A to provide balanced information, “management should include information about events or conditions during the reporting period that had a significant positive or negative effect on the financial position and condition. A balanced MD&A should also discuss and analyze significant positive or negative financial trends.”

Members discussed including “financial results” but instead agreed on “financial trends.” One member pointed out that “results” could be ambiguous because some preparers relate “results” only to operating revenues and costs and the Board does not want to limit the information to only operating revenues and costs.

Members agreed that this standard should include the following as an example:

...management may discuss and analyze performance results that had a significant (1) positive effect (e.g., accomplishments that resulted in reduced costs); or (2) negative effect (e.g., challenges that resulted in increased costs) on financial position and condition.

Members agreed to include a footnote to explain that “trends” refers to information from multiple reporting periods. Members also agreed to provide an explanation in the basis

for conclusions as to why the Board believes that including trend information is important.

Integrated

Members agreed that for the MD&A to provide integrated information, “management should present a unified discussion of related information by blending financial and non-financial, and qualitative and quantitative types of information.”

The Board’s intent is for management to relate information instead of providing segmented information in the sections as prescribed by SFFAS 15, *Management’s Discussions and Analysis*. Members believe that management should have the flexibility of including information that is related, for example, by a program.

Members agreed that this standard should include the following as an example:

Management may present the interrelationship of budgetary, financial, and operating performance information, based on the structure of the reporting entity as a whole and across its components’ missions.

Members agreed that the word “interrelationship” in the example helps to explain how “related information” may be integrated. Members agreed to remove “budgetary outcomes” and replace it with “budgetary, financial, and operating performance information.”

Members agreed to include an explanation in the basis for conclusions about what the Board means by “related” as opposed to sections.

Concise

Members agreed that for the MD&A to provide concise information, management “should emphasize the vital few matters that could affect the judgments and decisions of users of general purpose federal financial reports (GPFFRs).”

Members discussed whether the phrase “vital few matters that could affect the judgments and decisions of users of GPFFRs” would cause confusion within the context of the word “significant,” which is used in the *Information to Discuss and Analyze in MD&A* section. The Board was concerned this would limit management to only including what would affect judgments and decisions.

To address this issue, members agreed that management should “emphasize” the “vital few matters” to focus on the priority of how information is included instead of excluding certain information.

Members agreed that this standard should include the following as an example in reference to “vital few matters”:

Management may include information that it believes could

- i. lead to significant actions by top management of the reporting entity;
- ii. be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
- iii. significantly affect the judgment of citizens about the efficiency and effectiveness of their federal government.

One member believed that including “management may” in the example would help to avoid confusion with “significant” in the *Information to Discuss and Analyze in MD&A* standards and help to explain what the Board intends for “vital few matters” in relation to “concise.”

Members discussed the following that was also included in the description of concise: “A concise MD&A avoids boilerplate language, segmenting information, and duplicating information.”

Boilerplate Language

One member was not comfortable with including “boilerplate language” because the phrase is difficult to define. Another member reviewed the language that GASB included in paragraph 11 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, about “boilerplate” in MD&A:

MD&A requirements established by this Statement are general rather than specific to encourage financial managers to effectively report only the most relevant information and avoid “boilerplate” discussion...

That member further explained that GASB was trying to convey that management should be deliberate with what information to include and to only include relevant information for the current year and to avoid repeating information from year to year.

Members agreed to add a footnote, similar to the GASB language, to explain what the Board wants management to do in relation to avoiding “boilerplate language.”

Segmenting Information

Members agreed that a discussion about “segmenting information” should be moved from “concise” to the “integrated” characteristic.

Duplicating Information

In relation to duplicating information, members discussed what the Board’s intent is for referencing other information. Members agreed that, because MD&A is a summary document, the Board’s intent is for management to provide summary information as required in *Information to Discuss and Analyze in MD&A*. There should also be a reference to more detailed information only in the GPFFR.

Members had auditing concerns related to referencing other sources, such as websites, where the information changes and is not audited. While MD&A is required supplementary information (RSI), management still has to demonstrate that the information within it is consistent with anything that is incorporated by reference for auditing purposes.

If management chooses to provide a reference to information outside of the GPFFR, for example to Government Performance and Results Modernization Act (GPRAMA) details, then management should provide a footnote stating that information has not been audited.

The Board's intent is to only provide detailed information in one place in the GPFFR.

Members agreed to include a discussion in the basis for conclusions to explain what the Board's intent is in relation to referencing other information.

The meeting adjourned for lunch.

- **Leases Omnibus**

Mr. Perry, senior analyst, directed the Board to [topic B](#) of the briefing materials and provided an overview of the [comment letters](#) received on the ED titled *Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks*. The Board received 16 comment letters on the ED. A majority of respondents (15 of 16) indicated general support for the proposals. Several respondents provided insightful technical comments and other suggestions to clarify the proposal.

Question 2 – Do members agree with staff's recommendations for changes to the leases omnibus? What feedback do members have?

Staff noted two additional clarifying omnibus proposals identified by respondents and staff:

- A minor conforming amendment to align paragraph 61 of SFFAS 54, *Leases*, (lessor remeasurement guidance) with paragraph 44 (lessee remeasurement guidance)
- Clarifying interactions between paragraphs 19.a and 19.b of SFFAS 54

Members agreed to amend paragraph 61 of SFFAS 54.

Members discussed the purpose of the proposed amendment to paragraph 19.b. Staff noted that, absent the clarification, the provision in paragraph 19.a could be interpreted as being applicable to measuring lease terms more broadly rather than being specifically applicable to identifying cancelable periods excluded under lease terms under paragraph 19.a. Such interpretations could (a) scope improbable purchase options and payment-based factors into cancelable period assessments and (b) confuse

practitioners when assessing the term of leases. Staff also explained that the language in paragraph 19 is organized differently than the language in paragraph 12 of GASB Statement No. 87, *Leases*, resulting in a need for clarification.

Members tentatively agreed with the proposed amendment to paragraph 19.b, subject to consultations with GASB staff on the matter and, if necessary, updates on such consultations.¹

The Board discussed the basis for conclusions language. Members decided to add additional discussion in response to concerns raised by respondent #15 related to paragraphs 42B and 59B and the professional judgments that practitioners will make when applying the discounting requirements. Members discussed the benefits to providing reasonable accommodations for flexibilities in rate selection methodologies if such methodologies are consistently applied in accordance with the proposed criteria. Members also agreed that component reporting entities may develop and implement accounting policies for sub-components. Members requested that staff add additional discussion to the basis for conclusions on this matter. Members may provide follow-up edits when reviewing the updated draft.

The Board did not discuss the following question from the briefing materials:

Question 1 – Do members have any questions or concerns as it relates to the responses received in response to QFR #1?

- **Technical Agenda Review**

Ms. Valentine introduced [topic C](#)— the technical agenda review—to the Board. She noted that the Board annually reviews its technical agenda to determine priorities for the upcoming year. In addition to setting the Board’s priorities in August, the Board will conduct a mid-year review of the technical agenda at the February meeting.

Ms. Valentine reminded the members that current FASAB staff resources include three assistant directors, three senior analysts, one communications analyst, one executive assistant, and the executive director. As many members have noted, given the limited resources, staff continues to provide well-written, well-researched, and technically sound products to the Board and the AAPC for deliberations. In addition, staff regularly provides responses to technical inquiries, conducts task force meetings, attends government-wide meetings representing FASAB, and participates in a variety of outreach activities.

Ms. Valentine stated that resources such as detailees and interns cannot be viewed as permanent resource replacements, given the considerable learning curve and short-

¹Staff note: Soon after the Board meeting, staff met with GASB staff and determined that the Board should consider additional information provided by GASB staff. Staff will provide this information to the Board at a future meeting. At that time, members will decide if additional changes to the omnibus proposal are needed.

term nature of these appointments. She noted that part of her work is to continually monitor all project stages to determine the pace of the particular projects.

The objective for the session was for the members to review the Board's technical agenda projects and pre-research topics to determine priorities for the upcoming year.

Current Technical Agenda Projects:

- Climate-Related Financial Reporting
- Intangible Assets
- Land Implementation
- Leases Implementation
- Public-Private Partnerships Phase II – Recognition and Measurement
- Reexamination of Existing Standards
- Reporting Model – Concepts Omnibus
- Reporting Model – Budgetary Information
- Reporting Model – MD&A
- TR Conforming Amendments (AAPC)

Pre-Research Topic:

- SFFAS 38, *Accounting for Federal Oil and Gas Resources*, Requirements Review

Ms. Valentine noted that she had heard from several members on the three questions posed by staff.

Question 1 – Does the Board agree to continue with the current technical agenda projects and that the use of detailees and interns be available to supplement FASAB staff resources to continue moving the projects forward?

Question 2 – Does the Board agree to reclassify the Reporting Model – Budgetary Information project as a research project to allow staff time to work with the Office of Management and Budget (OMB) and the Government Accountability Office (GAO) on approach options?

The Board agreed with staff's recommendations to

- continue with the current technical agenda projects;

- use detailees and interns to supplement FASAB staff resources and continue moving projects forward; and
- reclassify the “Reporting Model – Budgetary Information” project to a research topic.

Ms. Valentine asked the members to defer the third question [*Do members believe that a research project to review the existing reporting requirements of SFFAS 38 is appropriate?*] until the session on the SFFAS 38 Requirements Review on the second day of the meeting.

The members agreed to defer the question 3 discussion until the second day of the meeting.

- **Annual Report Review**

Ms. Valentine introduced the draft FY 2022 annual report from topic D to the Board. She noted that FASAB releases an annual report and three-year plan each fiscal year to enhance visibility of its operations and to obtain input regarding the Board’s plans. The report includes a letter from the chair and a letter from the executive director. It also includes FASAB’s collaboration, outreach, and educational activities throughout the fiscal year, as well as a section on governance, operations, and budgetary resources.

Ms. Valentine added that Board members complete a survey annually to assess the Board’s conformance to the five criteria essential for a GAAP standard-setting body according to the American Institute of CPAs. The survey results provide information needed for the annual report and support continuous improvement. The survey results are provided in full to the Appointments Panel and the Board receives a summarized version of the results for consideration. Survey results are also summarized and included in the annual report.

Ms. Valentine highlighted the additional information added to the budgetary resources section of the report. Instead of only including the budget numbers by fiscal year, the chart will also include actual amounts by fiscal year. She also noted that highlights from the member survey results identifying areas that contributed to the effectiveness and efficiency of the Board during the year were added to the draft report. Members were asked to note others as needed. Ms. Valentine reminded members that an administrative session would be held in October or December to discuss specific operational improvements noted by members in the survey.

The objective for the session was for the Board to review an initial draft of the FY 2022 annual report and three-year plan. Ms. Valentine reminded the members that since FASAB would not issue the report until November, they would have an opportunity to see an updated version at the October Board meeting. She also noted that staff had received several comments from members with suggested edits on the draft report. A couple of other members noted they would be submitting their suggested edits to staff in the coming week.

Ms. Valentine asked the members two questions:

Question 1 – Do Board members have any suggested revisions to the annual report?

Question 2 – Do Board members have any suggested revisions to the three-year plan?

Members did not provide specific edits during the meeting.

Ms. Valentine asked Board members to provide any other suggested edits to her so that staff can make those updates and have a final draft ready for the October Board meeting.

- **Management’s Discussion and Analysis**

Mr. Scott added an additional session for [MD&A](#) after the last agenda item to discuss the remaining characteristic of a “streamlined narrative.” Ms. Gilliam facilitated the discussion.

Understandable

Members agreed that for the MD&A to be understandable to citizens, management “should present content in plain language, use headers to identify specific content, and as appropriate, include charts, tables, or graphs to enhance the understanding of the MD&A.”

Members agreed that presenting content in plain language would help to streamline the MD&A narrative. Members believe that management should use headers to enhance the understandability of the MD&A by highlighting breakouts of integrated information instead of breaking information into sections. Members also discussed that including charts, tables, or graphs—as appropriate—provides users with different ways to process the same MD&A information.

Members agreed not to include an example for this characteristic because the description was self-explanatory.

- **Steering Committee Meeting**

The Committee approved FASAB’s fiscal year 2023 final budget and reviewed the initial budget estimates for fiscal year 2024. The fiscal year 2024 budget discussion will continue at the next meeting.

Adjournment

The Board meeting adjourned for the day at 5:45 p.m.

Wednesday, August 24, 2022

Agenda Topics

- **Management's Discussion and Analysis**

Ms. Gilliam continued the discussion on MD&A.

Question 2 – What technical edits do you propose for *Information Discussed and Analyzed in MD&A*?

Lead-in Sentence

Members agreed with the following lead in sentence for *Information Discussed and Analyzed in MD&A*:

MD&A should discuss and analyze the following information:

Organization and Mission

Members agreed to the following proposed standard:

The organization and mission of the reporting entity as a whole and its component entities;

The Board's intent is to allow management flexibility for how to discuss and analyze (if appropriate) the reporting entity and component entities despite the size of the organization.

Because the footnote appeared to be more of an explanation of how information should be presented, members agreed to remove the footnote example and retain the first sentence for the basis for conclusions explanation:

Management should be flexible when determining how much information to include in the MD&A about the mission and organization of the reporting entity.

Financial Position and Financial Condition

In accordance with their intent, members agreed that the lead-in sentence should read as follows:

Significant changes from the prior reporting period, and significant trends over multiple reporting periods for the following to explain how the reporting entity's financial position and condition improved or deteriorated during the reporting period...

One member wanted to remove "improved or deteriorated during the reporting period" to streamline it, while another member explained it was important to know what caused

an improvement or deterioration of the financial position and condition. Other members agreed to retain it.

One member said that the Board is adapting the requirements from SFFAS 15 and the standards-like language from Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*. The member referenced SFFAC 3, paragraph 13, and said he did not see that standards-based language in this paragraph. That member said that the basis for conclusions should explain if and how the Board intends or does not intend to use the actual standards-like language from SFFAC 3.

One member said that paragraph 13 of SFFAC 3 included standards-like language about including changes in supplementary information. Members agreed that significant changes to RSI (formerly called supplemental information when SFFAC 3 was published), in addition to RSI for social insurance and fiscal sustainability (long-term projection) information, should be included in MD&A. The basis for conclusions should explain how this information was adapted, including why certain previously classified required supplementary stewardship information (RSSI) should be included in MD&A.

Ms. Valentine explained that paragraph A10 of SFFAS 57, *Omnibus Amendments 2019*, discusses rescinding RSSI and how it should be included in MD&A. One member requested a footnote to address this.

Some members suggested that the last sentence in paragraph 13 of SFFAC 3 be included because it addresses what types of information should be included in MD&A:

MD&A should therefore address the most important facets of performance as well as the financial statements and supplementary information.

One member suggested that MD&A include information about significant changes to RSI that had a direct effect on the improvement or deterioration of financial position and condition for the reporting entity, including at the government-wide level.

One member also suggested that, in addition to significant changes, MD&A also address the composition of significant balances. For example, what significant activity made up net cost? Members agreed. One member said that information about the components of a financial statement line item is already in the financial statement footnotes, so MD&A could summarize that information with a reference to the footnote.

Members agreed to change “budgetary and financing resources” to “budgetary resources and financing sources.”

Performance

Members discussed whether standards-like language from SFFAC 3 was adapted in the proposed standard for performance information. One member said that information about how to measure performance was reviewed and not carried forward because SFFAC 3 heavily relied on the government performance reports and that the Board's

intent was not to include the detailed Government Performance and Results Act and GPRAMA information.

Members agreed to this proposed standard for performance:

Key performance results in relation to costs incurred, and any significant effect to budgetary and/or financing resources.

Some members preferred the term “effect” to “impact.” Other members agreed.

Systems and Controls

Ms. Gilliam introduced this proposed standard by explaining that staff had changed this wording to emphasize the reliability of financial information in relation to weaknesses with the financial management system, related systems, internal controls, and/or noncompliance. That is how SFFAC 3 standards-like language addresses systems and controls.

She presented the following draft standard on systems and controls:

Management’s assessment of the reliability of the reporting entity’s financial and performance information including: (1) an explanation of significant weaknesses in its financial management system, related systems, internal controls, and/or instances of non-compliance with applicable laws and regulations and (2) the plans to correct significant internal control weaknesses and instances of non-compliance.

One member asked what the Board wanted in MD&A that differs from requirements in OMB Circular A-136, *Financial Reporting Requirements* (for example, the assurance letter and identification of weaknesses in other information).

Another member explained that there are three laws: one that relates to overall control, one that relates to controls over computer security, and one that relates to controls over systems.

That member said MD&A should provide a summary of management's assessment of the reliability of financial information through a discussion and analysis of the effectiveness, not just weaknesses, of internal controls, financial management systems, and compliance. Management should also include applicable material weaknesses, significant systems deficiencies and noncompliance, and plans to address them.

Members agreed that the basis for conclusions should explain that there are various statutory requirements, and the Board’s intent is for management to summarize key information in MD&A.

Members reviewed the following standards-like language from paragraphs 15 and 16 in SFFAC 3:

- Regarding systems and controls, MD&A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term “management controls”) are adequate to ensure that ... performance measurement information is adequately supported.
- The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws.

Members agreed that the Board's intent is for MD&A to include a summary of management's assessment of the reliability of financial and performance information, effectiveness (not just weaknesses), of internal controls, financial management systems, and compliance with related laws and regulations, and plans to address them.

One member explained that it is required by auditors to look at noncompliance in relation to laws, regulations, contracts and grants. The member recommended including those in a footnote instead of in the body of the standards. Other members agreed.

Risks and Opportunities

One member suggested that the proposed standards be moved to below the information on performance. There were no objections by other members.

One member suggested a possible consolidation of the information. That member also asked if tiered reporting, where entities of different sizes are flexible in what they must report, could be applied to these proposed standards. That is, a small agency that is immaterial to the consolidated financial report of the U.S. Government potentially not having to report on risks and opportunities.

At this time, any agency that publishes a financial report must do an MD&A in accordance with the required standards. These proposed standards would encourage agencies to streamline the data according to what they need to report. In addition, all agencies are required to do enterprise risk management (ERM) so they would have the information to discuss risks and opportunities. Another member agreed and added that OMB Circular A-123, *Management's Responsibility for Internal Control*, incorporates ERM requirements for all sizes of reporting entities. Therefore, it would be appropriate for all small entities to report.

Members reviewed the difference between risks and opportunities to learn if the two could be merged. One member explained that when an agency does its risk management profile, it will go through a long procedure to assess its risks. However, to have a balanced approach to ERM, the reporting entity is also required to identify any opportunities that may exist that can be capitalized on to enhance its performance results. Members did not decide as to whether to merge these proposed standards.

Mr. Scott directed Ms. Gilliam to return to the session the next day with updated proposed standards for the Board to continue to review. Some members offered to provide updates to assist.

- **Software Technology: Cloud Service Arrangements**

Mr. Williams, senior analyst, introduced [topic E](#) by recapping the history of previous Board meeting deliberations on the software technology project. He reminded members that since February 2022, the Board had approved a scope of software technology categories for the purposes of developing reporting guidance updates and that the Board was currently focused on the cloud-service arrangement category.

Mr. Williams then explained that the purpose of the Topic E session was to continue deliberating whether cloud-service arrangements could meet the essential characteristics of an asset for financial reporting purposes and begin discussions on potential benefits and challenges of reporting cloud service arrangements as assets in federal financial reports. While previous discussions focused on cloud-service arrangements from a macro level, this discussion would focus on how the asset characteristics could apply to the different contracts or agreements that federal entities use to procure cloud services.

He stated that the purpose of the recommendations was to facilitate discussion and feedback from the Board so that staff could continue to fine-tune a scope and framework for cloud-service arrangement reporting guidance.

Question 1 – Do members have any feedback on the proposed asset framework for cloud-service arrangements?

Mr. Williams reminded the Board that members had previously supported referring to the following National Institute of Standards and Technology's (NIST) cloud-computing characteristics for the purposes of deliberating reporting guidance for cloud-service arrangements:

- *On-demand self-service*
- *Broad network access*
- *Resource pooling*
- *Rapid elasticity*
- *Measured service*

He then presented the following NIST cloud-computing service models:

- *Software as a Service (SaaS)*
- *Platform as a Service (PaaS)*

- *Infrastructure as a Service (IaaS)*

Finally, he presented the following NIST cloud-computing deployment models:

- *Private cloud*
- *Community cloud*
- *Public cloud*
- *Hybrid cloud*

Mr. Williams explained that staff believes it is important for the Board to review and understand cloud computing and other related terms in the federal environment to create effective financial reporting guidance without expanding upon or clarifying the NIST guidance. He further stated that it is important to expand and clarify cloud-related terms only for financial reporting reasons and to otherwise leave the information technology (IT) guidance to the IT professionals. For example, it would be appropriate for future guidance to explain the data-security implications of private versus public cloud only if there were an accounting or financial reporting reason for doing so.

Mr. Williams then suggested that it was not even clear that financial reporting guidance would require an assessment of the different types of cloud-computing service and deployment models. For example, he stated that GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, does not mention IaaS, PaaS, or SaaS anywhere in the guidance except once in the basis for conclusions and does not mention private- or public-cloud models anywhere in the Statement.

Mr. Williams then discussed three major types of cloud-service arrangements in the federal environment that staff identified from research and working group deliberations:

- *Pay-as-you-go* – Federal entities pay a cloud-service provider in arrears for actual usage based on established measurement criteria. Additionally, there is no upfront payment, usage, or term commitment. The federal entity can start and stop service when desired. These types of arrangements especially appear to meet all five NIST cloud-computing characteristics and most closely resemble a utility arrangement.
- *Cloud credits* – Federal entities pay upfront for a specific quantity of cloud credits that they can then apply to receive various cloud services on demand. This category is similar to the pay-as-you-go category except that consumers pay for a fixed usage amount upfront rather than paying for variable usage in arrears. Some federal entities actually pay upfront while others do not due to appropriation limitations.
- *Multi-year commitments* – Federal entities agree to purchase a minimum dollar amount of cloud services at a fixed price from a vendor for a

specified period. However, the federal entity may be able to exceed the agreed upon usage for an additional cost. Federal entities often enter into this type of arrangement to secure a discounted price in exchange for a usage commitment. This type of arrangement can consist of fixed-subscription-type payments and contract option years. Some working group members described this category as a commitment to a minimum purchase amount of cloud services over a set period, but still executed as pay-as-you-go based on variable usage.

Mr. Williams then provided an analysis of whether the three categories of cloud-service arrangements could meet the essential characteristics of an asset from SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*. The concepts state that to be an asset of the federal government, a resource needs to possess the following two characteristics:

- The resource embodies economic benefits or services that can be used in the future.
- The government controls access to the economic benefits or services and, therefore, can obtain them and deny or regulate the access of other entities.

Mr. Williams explained that staff believes that all three cloud-service-arrangement categories largely meet the “control” characteristic of an asset. As long as the federal entity has entered into a contract or agreement to pay a cloud-service provider for access to cloud-based IT resources, the federal entity would generally have control over the economic benefits or services of that resource and could regulate access to the IT resource in accordance with the contract or agreement.

Mr. Williams further explained that while NIST discusses various levels of control across the cloud-service models, “control” is a term of art in SFFAC 5 with a very specific meaning. He stated that NIST appeared to use the word control for referring to various management responsibilities between the consumer and cloud provider and that NIST would not be referring to FASAB’s concept of control.

Regarding the NIST cloud-deployment models, Mr. Williams acknowledged that private-cloud models would provide a federal entity more exclusive access to the entire underlying cloud resource than public clouds. However, public cloud is not public space and even with public cloud, the federal entity would be able to deny or regulate access to its cloud-service rights in accordance with the arrangement with the provider. Federal entities often do this through passwords and/or access identification security controls.

Mr. Williams caveated that while several working group members were in general agreement with staff’s assessment of control, at least one working group member disagreed that all cloud-service arrangements would generally meet the control characteristic of an asset. The working group member suggested that there was a spectrum of levels of control across the different types of cloud service and deployment

models and that some may meet the control characteristic while others may not. For example, the working group member suggested that a federal customer would have more control over an IaaS than SaaS arrangement, or that a federal customer would not have control over public-cloud models because it could not deny or regulate the cloud provider from providing the same service to another entity. Mr. Williams reiterated, however, that staff disagrees with those positions due to the points made previously.

With the assumption that all three categories of cloud-service arrangement could generally meet the control characteristics, Mr. Williams addressed whether each category could represent a future economic benefit or service to a federal entity:

- *Pay-as-you-go* – This type of arrangement does not appear to represent a future economic benefit or service for the federal entity because neither party to the agreement is obligated to continue meeting their requirements (for example, timely payment and cloud access) beyond the present. Additionally, the future cash flows are purely variable based on usage and therefore the entity cannot know the future amounts.
- *Cloud credits* – The upfront payment by the federal entity requires the vendor to provide future cloud access to the federal entity. Therefore, the upfront payment transaction would appear to represent a known future economic benefit or service for the federal entity.
- *Multi-year Commitment* – This type of arrangement requires the vendor to provide a minimum amount of future cloud access to the federal entity for a specified price and period so long as the federal entity continues to meet its requirements throughout the period of the agreement (for example, timely payment). Therefore, the minimum purchase aspect of this agreement would appear to represent a known future economic benefit or service to the federal entity and would represent known fixed future cash flows.

Mr. Williams concluded that the pay-as-you-go arrangement would not meet the SFFAC 5 essential characteristics of assets while both the cloud credit and multi-year commitment types of cloud-service arrangements could potentially meet both essential characteristics of assets. He specifically noted that staff believes there is opportunity to report cloud-credit arrangements as a type of pre-paid expense and multi-year commitment arrangements similar to lease assets.

Mr. Williams stated that staff sees potential asset reporting options for these kinds of arrangements, in theory. However, he indicated that further research was necessary to understand the practicalities and difficulties of preparers actually reporting them as assets. He informed the Board that some working group members have indicated support for staff's current positions and have indicated that the asset reporting options sound feasible in theory while some other working group members have voiced disagreement or concern with the practicalities of doing so.

The Board generally agreed with staff's analysis and positions on whether the three identified categories of cloud-service arrangements could meet the SFFAC 5 essential characteristics of assets. Most members agreed that the pay-as-you-go category would generally represent an operational expense. However, one member pointed out that even pay-as-you-go arrangements could represent asset value depending on the timing of payments within the fiscal year. Some members indicated that if cloud credits represent pre-paid expense assets, then it was possible that future guidance could simply point the reader to existing reporting guidance on pre-paid expense assets. A few members stated that they would like to better understand the multi-year commitment category, specifically with how it is executed as a pay-as-you-go arrangement.

One Board member asked which cloud-service arrangement category was most used among federal entities. Mr. Williams replied that, anecdotally, it appeared that the pay-as-you-go arrangement was the most used among federal entities in terms of the number of arrangements. This would make sense because the flexible and non-committal nature of the arrangement presents many benefits to federal customers. However, he suspected that the larger dollar arrangements more typically presented as multi-year commitments. He indicated that he planned to research this more with the working group to develop a more definitive conclusion. Another member questioned if federal entities actually utilize a hybrid cloud-service arrangement in which several entities execute cloud usage against one large schedule.

One member stated that it was important to determine whether cloud-service arrangements are service contracts and, if they are service contracts, then they are not assets. The member further suggested that the key question for multi-year commitment arrangements was whether they represent a known future benefit or service owed to the federal entity. If not, then it would be a service contract and not an asset. The member mentioned that other standard-setting bodies appeared to come to different conclusions on whether cloud-service arrangements are service contracts and encouraged further research and deliberation on this specific issue in the future. Another member agreed that it was important to understand how other standard-setting bodies reached their conclusions about cloud-service related guidance.

One member stated that cloud-service arrangements appeared to not resemble service contracts because the arrangements represent transactions in which a federal entity is temporarily using another entity's software-based resources instead of developing or purchasing those resources itself. One member stated that the structure of the agreements was important but was confident that they generally resemble leases. Another member agreed that the details with how cloud services are procured are important and agreed that the arrangements appeared to represent right-to-use transactions.

One Board member stated that cloud-service-arrangement frameworks are becoming both more complex and available to customers and recommended that staff research the many different types of procurement models in state and local government for further insight. Another member stated that the federal government is a unique buyer of

cloud services due to its size and stressed that could present unique criteria and challenges with assessing cloud-service arrangements as assets.

Question 2 – Do members have any feedback on the potential benefits and challenges of reporting cloud-service arrangements as assets?

Mr. Williams then discussed potential user benefits and preparer challenges of reporting cloud-service arrangements as assets in federal financial reports. He first discussed potential reporting benefits associated with the financial reporting objectives from SFFAC 1, *Objectives of Federal Financial Reporting*:

- *Budget Integrity*
 - Identify out-year budgetary resources needed for future payments for cloud-service arrangements
- *Operating Performance*
 - Identify future obligations of federal programs
 - Compare costs of IT resources used in federal entity operations
 - Identify cost efficiencies in operations
- *Stewardship*
 - Status of assets and liabilities affecting financial position
 - Identify trends in financing software resources from other entities
- *Systems and Control*
 - Reporting assets and liabilities helps ensure controls are in place to account for costs accurately

Regarding the operating performance objective, Mr. Williams provided an example of one federal entity already performing net present value analysis to compare cloud-service cash flows with costs to acquire or develop other internal use software assets. This type of analysis could help federal entities make cost-effective decisions on what type of software resources to invest in for operational needs. Asset reporting would shine a spotlight on costs and resources that could lead to improved cost analysis and management.

Mr. Williams explained that, based on his personal experience as a preparer, financial reporting guidance coupled with the goal of achieving clean audit opinions certainly drives better cost accounting and transparency through improved systems and control. He also stated that reporting cloud-service arrangements as assets could help identify future year cash outflows regardless of budgetary limitations. For example, reporting

cloud-service arrangements on an annual basis based on one-year appropriations could mislead a user on the long-term financial status of the federal entity if it is reasonably certain that management would continue to acquire the cloud service for multiple years.

Mr. Williams then discussed what he and the working group identified as the most significant user benefits and preparer burdens associated with reporting cloud-service arrangements as assets:

- *Reporting benefits*
 - Identifying annual trends in costs associated with cloud-based resources at the government-wide and component levels
 - Comparing costs of cloud-based resources among federal entities
 - Comparing costs of cloud-based resources with alternative software resources, like internally developed or commercial off-the-shelf software
 - Identifying future, multi-year benefits and associated liabilities of cloud-based resources used in federal operations and programs
- *Reporting challenges*
 - Assessing the probability of exercising option years when determining useful life of cloud-service arrangements
 - Separating the cost for access to a software-based resource from service costs
 - Reporting enterprise cloud costs at component levels
 - Assessing guidance scope with other reporting guidance for certain cloud-service models

Mr. Williams explained that multiple working group members identified a foreseeable challenge with determining whether certain cloud-service models that utilize underlying tangible IT resources (like IaaS) would belong in the lease guidance scope or future cloud-service arrangement scope. For example, what is the difference between leasing a tangible computer server on premise versus an IaaS private-cloud service? Mr. Williams suggested that the Board could overcome this challenge by developing a very explicit scope in future guidance that makes it clear to preparers and auditors whether all cloud-service arrangements are intangible, or some are leases of tangible property.

Mr. Williams stated that most working group members generally agreed with the financial reporting objective analysis but some suggested that they already achieve those objectives through their existing practices of analyzing and managing cloud-service costs for their federal entity. They stated that, due to other financial

management requirements, they already record and analyze cloud-service needs and costs very thoroughly to ensure efficiencies in their federal entity's operations and did not think that additional financial reporting requirements were necessary to encourage that.

Mr. Williams then highlighted a few insightful points that some working group members made with reporting benefits of reporting cloud-service arrangements as assets. One working group member observed that the financial reporting objectives appeared to want predictability with reporting asset value. However, the flexible, on-demand nature of cloud-service arrangements may not easily fit into financial reporting requirements that require predictable future value. That same working group member understood the potential reporting benefits but cautioned that overly broad financial reporting without enough context or detail could do more harm than good. They emphasized that every federal entity's mission and operational needs are different and that users could jump to incorrect conclusions without enough detail to go along with the reported numbers.

Mr. Williams indicated that staff planned to seek out the views of more types of federal financial report users to determine the need for reporting cloud-service arrangements. He informed the Board that the federal entity financial report preparers in his task force were also significant users of financial reports and that the working group offered financial report user insight from the federal entity management perspective. However, he stated that it was important to obtain the views of other federal financial report users that could be interested in cloud-service arrangement information, such as private-cloud providers.

Board members generally agreed with the potential benefits and challenges that staff identified for reporting cloud-service arrangements as assets. A few members voiced concern that the reporting benefits may not outweigh the costs but were interested to see more research and analysis from staff before forming a conclusion. One member especially agreed with the challenge of assessing the probability of exercising option years with cloud-service arrangements and questioned if management could truly be certain of a future economic benefit or service associated with the entire term of the arrangement. One member said that all of the identified reporting challenges were valid, especially separating cloud labor services from right-to-use cost but thought that they could be overcome with proper guidance.

One member had materiality concerns with reporting cloud-service arrangements because, while the yearly costs are in the billions of dollars and large in absolute terms, the costs are relatively small compared to other balance sheet items in federal financial reports. Mr. Williams agreed that the annual cost of cloud-service arrangements remained relatively small compared to other capitalized assets, but the costs appeared to be growing exponentially each year.

Another Board member suggested that cloud-service arrangements might at least be material at the agency level. The member reminded the Board that the current SFFAS 10, *Accounting for Internal Use Software*, guidance is very old and needs updating to address the modern IT environment. The member also acknowledged that the project

could potentially clarify existing guidance rather than create brand new requirements, but that it was important to at least ensure consistency in reporting across the federal government to facilitate comparability among federal entities. Another member pointed out that if the multi-year commitment arrangements were the only potential long-term assets, it was important to better understand the dollar, quantity, and useful life aspects of those arrangements to assess potential materiality.

Several Board members offered thoughts on the possibilities of future reporting guidance for cloud-service arrangements. One member emphasized the value of transparency to financial report users, especially with financial condition and how assets are used in operations. The member observed that at least the pay-as-you-go arrangements appeared to present as an operational expense for a resource that was once a purchased or developed asset. The member then suggested that disclosure of total costs of pay-as-you-go arrangements along with qualitative information could be insightful to financial report users regardless of if it is a recognized asset.

Another member stated that it was important to deliberate the benefits and challenges of financial statement recognition versus notes disclosure for cloud-service arrangements. Another member questioned if it would even matter to users whether the balance sheet recognized cloud-service arrangement assets and requested that staff research the benefits of reporting cloud-service arrangements as an expense rather than an asset. A few members agreed that due to the fast changing IT environment, the Board was dealing with a moving target in developing reporting guidance and that it is important to ensure the guidance can apply to future unforeseen issues.

Mr. Williams concluded by discussing what staff planned as next steps in the project:

- Further research the prevalence of each identified cloud-service arrangement category in the federal environment
- Further research how federal entities incur costs and receive benefits through multi-year cloud service commitments to determine asset recognition possibilities
- Identify benefits of reporting cloud-service arrangements in ways other than recognizing an asset in financial statements
- Seek out the views of a wider range of federal financial report users that may have an interest in cloud-service arrangement reporting

Mr. Williams stated that he would continue to engage with his working group to continue developing a financial reporting framework for cloud-service arrangements for future Board deliberations.

The meeting adjourned for lunch.

- **Intragovernmental Leases-Related Reimbursable Work Agreements**

Mr. Perry introduced [topic F, intragovernmental leases-related reimbursable work agreements](#), by providing an overview of the staff analysis and changes to the working draft, as reflected in the briefing materials.

Members discussed and agreed upon several improvements to the draft.

Question 1 – Do members have feedback or wish to discuss the executive summary or basis for conclusions sections (items A1 and B1-B2 and related sections of Attachment 2)?

Members agreed to add a discussion in the basis for conclusions explaining the authoritative basis for the proposals, including demonstrating the unique aspects of reimbursable work authorizations in the context of assigning leasehold improvement assets.

Question 2 – Do members have feedback or wish to discuss items A2 and B4-B5 and the related changes to paragraphs 1-15 in Attachment 2?

Question 3 – Do members have feedback or wish to discuss items A3 and B6 and the related proposals in paragraphs 10-15 in Attachment 2?

Members agreed to clarifying edits to paragraphs 8-9, including revising the question to align with the phrasing of the answer.

Members also agreed to include a specific matter for comment to receive feedback from the community on paragraph 15.

Question 4 – Do members have feedback or wish to discuss the policy criteria matter discussed and analyzed under items A4 and B7, and paragraph 15 in Attachment 2? Do Board members agree with staff's recommendation on this matter?

Question 5 – Do members have feedback or wish to discuss the items A5-A6 and B8-B9 and related changes to paragraphs 16-22 in Attachment 2?

Members agreed to include additional criteria to address the timing of customer-lessee asset amortization commencement in paragraph 25 and provider-lessor revenue recognition in paragraph 32.

Due to time constraints, the Board did not discuss the following question from the briefing materials:

Question 6 – Do members have feedback or wish to discuss items A7-A9 and B10-B11 and related changes to paragraphs 23-37 in Attachment 2? Please provide feedback on the matters highlighted by staff, including the prepayments issue and the potential exclusion of paragraphs 28.b and 34.b.

The ED will have a specific matter for comment on this topic and members will further discuss the matter after receiving feedback from respondents.

Members asked staff to confer one-on-one with members individually on certain finalizing technical edits to the proposals and basis for conclusions prior to releasing a review copy to the Board for a 15-day review. Finalizing changes will be tracked in the review copy. If a majority of members do not object to the ED release during the 15-day review period, FASAB will release the ED for public comment for 45 days.

- **Review of SFFAS 38 Requirements**

Ms. Sherry Lee, senior analyst, introduced [topic G](#), SFFAS 38 requirements review, by thanking the members for their responses to the three questions posed prior to the meeting. Ms. Lee then provided the background on the pre-research topic. SFFAS 38 requires the reporting of the value of the federal government's estimated royalties and other revenue from the production of federal oil and gas reserves, and Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*, applies the requirements in SFFAS 38 to other federal natural resources that are under lease, contract, or other long-term agreement. At the time FASAB issued SFFAS 38 and TB 2011-1, it was the Board's intent that the requirements would transition to basic after three years as RSI. Before the end of the three-year RSI period, the Board planned to decide whether the information would transition to basic as financial statement recognition or note disclosure or if the information should stay in RSI. It has been nine years since SFFAS 38 became effective, and the Board's determination is needed to close the loop.

Staff posed the following questions to the Board:

Question 1 – Do members believe that a research project to review the existing reporting requirements of SFFAS 38 is appropriate?

Question 2 – If so, do members agree with staff's next steps to continue researching the topic to assist with the Board deliberations?

Question 3 – Do members wish to share any other observations or views regarding the Board's assessment of the current SFFAS 38 requirements?

Before the Board began discussion on the responses to the questions, Mr. Scott pointed out that the language related to transition from RSI to basic is in the authoritative standards section and not in the basis for conclusions section. As such, Board action, either by concluding that the current requirements remain as RSI or the information transition to basic, should occur. Ms. Valentine agreed that Board action is necessary to close the loop. Since the questions are related, Mr. Scott suggested that members address them at the same time.

Members agreed unanimously to leave the oil and gas information in RSI and not continue researching the topic for the following reasons:

- One member explained that part of the reexamination of existing standards project is to assess guidance's current applicability and to eliminate or revise unnecessary requirements to reduce reporting burden. The member thought that the Board could not move the reporting requirements under SFFAS 38 to basic without adding to reporting burden.
- Another member suggested that if the asset value for future royalties, which should be at historical cost according to our model, were to be recognized at fair value, it would probably be an insignificant amount in the financial statements. Because actual royalties are already recognized as an asset each year, the member did not see a need to recognize future royalties as an asset. Moreover, the member believed moving from RSI to basic would not change the content much so users would not get additional information from the transition.
- One member remembered that the reason the Financial Accounting Standards Board required RSI was due to difficulty related to auditing oil and gas reserves in the ground, the associated cost, and price fluctuation.
- One member reached out to the Department of the Interior to informally get its view on transitioning the information from RSI to basic. Interior commented that, as it relies on the Department of Energy's (DOE) Energy Information Administration (EIA), audit support would come from DOE.
- One member raised concerns with cost-benefit related to transitioning to basic. Given that no standard setter requires more than RSI reporting at this time and the constraint on resources that the Board had been discussing, the member was in favor of keeping the information as RSI.
- One member recalled the challenge with oil and gas reporting was with measurability and the approach to measurement was mechanistic. The Board was hoping that over time there would be a more certain measurement, but the challenge seems to remain. The member questioned the need for a research project to come to a Board conclusion and suggested if the Board were to decide to go ahead with the research project it should be fairly limited on focusing on any significant change. The member also questioned the need to reassess the value of the oil and gas information to users.
- A few members stated that the information should stay in RSI considering no other standard setter requires oil and gas reserves as basic, difficulty with measuring and valuing, and the lack of expressed interest in the information.
- A member pointed out that auditing concerns about reserve information would be a reason to not transition to basic from RSI. The member did not

believe a research project was necessary considering the workload of the Board.

Members agreed to amend SFFAS 38 through an omnibus SFFAS to conclude the open-ended proposal in the next fiscal year. TB 2011-1, which extended SFFAS 38 requirements to non-renewable natural resources, will also be amended accordingly.

As next steps, one member suggested reaching out to key stakeholders, such as preparers and potentially others, to form a basis for Board considerations and conclusions. Ms. Valentine indicated that Ms. Lee had already reached out to Interior and EIA. During her research on the pre-project topic, Ms. Lee had multiple conversations with Interior on current valuation methodologies and the transition to basic from RSI. Ms. Lee also met with EIA to obtain an understanding of the development processes of the national oil and gas proved reserves estimates. Ms. Lee described the challenges with the underlying assumptions related to the EIA estimates, Interior's inability to estimate the federal portion of the onshore-proved reserves reliably, the inability to obtain audit evidence due to legal protection of operators' proprietary information, and the significant fluctuation in oil and gas prices. Ms. Lee will include these challenges in the basis for conclusions to support the Board's decision.

Mr. Savini, assistant director, raised concerns on the potential effect that the Board's decision could have on post-issuance implementation of SFFAS 59, *Accounting and Reporting of Government Land*. Similar to SFFAS 38, SFFAS 59 provides for a four-year RSI reporting period before transitioning to basic in FY 2026. Mr. Savini is concerned that the Board's decision to keep natural resource reporting in RSI based on lack of reliability in measuring oil and gas and concerns over preparer and audit burden might give justification to those against moving land reporting to basic a logical position to object to SFFAS 59 during implementation. Mr. Savini requested that if members believe the two standards are separate and distinct, the Board should document the distinction between the mineral estate and land, noting why the Board would opt to have one reported as RSI and the other as basic.

A member stated that there is a substantive difference between oil and gas reporting and land reporting because land is measurable. The challenge with oil and gas reporting had always been the reliability of the valuation of the reserves.

Mr. Scott agreed that there is a distinct difference between estimating acreage and valuing oil and gas reserves. He also reminded members that it is premature to discuss the land transition to basic as we are in the early phase of implementing land reporting in RSI.

Next steps: Ms. Lee will draft the amendments to SFFAS 38 and TB 2011-1 and will include her research on the topic in the basis for conclusions to support the Board's decision of leaving the information in RSI. Staff will provide draft omnibus amendment proposals to the Board sometime in the next several months for its consideration.

- **Appointments Panel Meeting**

The Appointments Panel met in closed session to discuss personnel issues. The reason for the closure was that matters covered by 5 U.S.C. 552b(c)(2) and (6) were discussed. The discussions related solely to internal personnel rules and practices of the sponsor agencies and the disclosure of information of a personal nature where disclosure would constitute a clearly unwarranted invasion of personal privacy. A determination has been made in writing by GAO, the U.S. Department of the Treasury, and OMB, as required by section 10(d) of the Federal Advisory Committee Act, 5 U.S.C. App., that the meeting may be closed to the public in accordance with 5 U.S.C. 552b(c)(2) and (6).

Adjournment

The Board meeting adjourned for the day at 5:30 p.m.

Thursday, August 25, 2022

Agenda Topics

- **Management's Discussion and Analysis**

Question 2 – What technical edits do you propose for *Information Discussed and Analyzed in MD&A*?

Ms. Gilliam provided updates to the proposed standards in *Information Discussed and Analyzed in MD&A* in response to Mr. Scott's request and member edits from the Wednesday session. Members continued to edit these proposed standards.

Financial Position and Financial Condition

Members agreed that the intent for discussing financial position and condition is to include three types of information: (1) the composition—significant balances—of financial statement line items/elements, (2) significant changes in balances from the prior reporting period, and (3) trends to understand what caused the financial position and condition to improve or deteriorate.

Members agreed that management should discuss the three types of information for

- assets, liabilities, and net position; net cost and revenues, and budgetary resources and financing sources;
- business-type activity;
- social insurance and long-term fiscal projections;
- RSI, such as stewardship investments; and
- other factors that significantly affect financial condition and position.

One member was concerned if the Board gave adequate discussion about including RSSI for stewardship investments per SFFAS 57, paragraph A11:

Given the Board's decision to eliminate the RSSI category, the majority of respondents agreed that guidance on reporting stewardship investment information in MD&A would be needed. Guidance would help ensure that reporting entities consistently provide the information that would be most beneficial to users. The Board is conducting a project on improving MD&A, and the project will consider the respondents' concerns and suggestions.

That member wanted to make sure the MD&A project properly discussed RSSI and provides appropriate guidance in MD&A.

Performance, Opportunities, and Risks

Members agreed that the following proposed standards best represent the Board's intent for what management should include for performance, opportunities, and risks in MD&A:

- Key performance results in relation to costs incurred
- Significant opportunities identified by management to enhance performance results, plans to leverage such opportunities, and the potential impact on financial and budgetary results of carrying out those plans
- Significant risks identified by management that have a potentially negative effect on performance results, plans to mitigate such risks, and the potential impact on financial and budgetary results of carrying out those plans

Staff will reinstate the footnote descriptions for "opportunities" and "risks," which disappeared due to the document being unstable.

Systems and Controls

Members discussed what systems and controls MD&A should address. Some members questioned whether it should only be in relation to financial reporting or also performance. One member explained that auditors also look at grant and contract agreements.

Members agreed that the following proposed standard best represent the Board's intent for what management should include for systems, controls, and compliance:

Management's assessment of the reporting entity's: (1) effectiveness of the internal controls and financial management systems; (2) compliance with laws and regulations relevant to the entity's financial reporting, and contract and grant agreements; and (3) an explanation of internal control weaknesses, systems

deficiencies, and instances of non-compliance that have a significant effect on the reporting entity's financial and performance reporting and corrective action plans to address them.

Members agreed to add a question for respondents to understand what the burden would be to report on "compliance with laws and regulations relevant to the entity's ... contract and grant agreements."

The Board did not discuss the following questions from the briefing materials:

Question 3 – What technical edits do you propose for the *Executive Summary*?

Question 4 – What technical edits do you propose for the *Questions for Respondents*?

Question 5 – What technical edits do you propose for the *Recession and Replacement of SFFAS 15*?

Question 6 – What technical edits do you propose for the *Basis for Conclusions*?

Adjournment

The Board meeting adjourned at 12:30 p.m.